

RD AN No. 4615 (1980-D)  
February 1, 2012

TO: State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors,  
Guaranteed Rural Housing Specialists,  
Area Directors and Specialists

FROM: Tammye Treviño (*signed by Tammye Treviño*)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program  
Rural Refinance Pilot

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to announce a new pilot program for the Single Family Housing Guaranteed Loan Program. The Rural Refinance Pilot is designed to assist existing Section 502 borrowers, for both direct and guaranteed loans, to refinance their homes with greater speed and ease. The pilot program will be available to borrowers in “Hardest Hit” states, where steep home price declines and unemployment have made refinancing a current mortgage into more affordable terms very difficult or impossible. Borrowers in these states will be able to refinance their homes to secure lower interest rates and monthly payments without the need of obtaining a new credit report, new appraisal, or new property inspections.

**COMPARISON WITH PREVIOUS AN:**

There is no previous AN issued on this subject.

**EXPIRATION DATE:**  
December 31, 2012

**FILING INSTRUCTIONS:**  
Preceding RD Instruction 1980-D

## **Section 502 Guaranteed Loan Program Rural Refinance Pilot Guidelines:**

**Brief Pilot Description:** The Rural Refinance Pilot is available to eligible borrowers who qualify to refinance their current USDA mortgage loans. Under the Rural Refinance Pilot program, a lender does not need to submit a new credit report, new appraisal, any HUD Handbook minimum property determinations, or any additional property inspections.

**Eligible “Hardest Hit” States:** The following states may participate in the Rural Refinance Pilot: Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. Additional States are not eligible at this time.

**Eligible Borrowers:** Current Section 502 Direct or Guaranteed Loan borrowers must:

1. Meet current income eligibility requirements;
2. Reside in an eligible rural area or an area that was eligible at the time of the original loan closing; and
3. Have made timely mortgage payments for the 12-month period prior to the refinance.

### **Overview of Rural Refinance Pilot Guidelines:**

1. The existing loan must be a Section 502 Direct or Guaranteed loan.
2. The new interest rate must be a fixed rate 100 basis points below the current interest rate.
3. The new term of the refinance loan may not exceed thirty years from the date of closing.
4. A Rural Refinance Pilot loan may only include the principal balance of the loan plus a portion of or the full upfront guarantee fee. The applicable upfront refinance guarantee fee is 1.5 percent. No cash out is permitted to the borrower. Accrued interest, closing costs, lender fees, and late fees are not eligible to be part of the refinance loan.
5. An annual fee also applies. For FY 2012 the applicable annual fee is .3 percent.
6. A new appraisal, new credit report, HUD Handbook determination and additional property inspections are not required. The original appraisal amount may be used from Guaranteed Loan System to process the loan.
7. Ratio calculations are not required. Therefore debt ratio waiver requests will not be necessary.
8. Rural Refinance Pilot loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System.
9. Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider. An origination fee of up to one percent of the total loan amount may be charged to the borrower.
10. All the following documentation is required:

- a. Form RD 1980-21 “Request for Single Family Housing Loan Guarantee”.
- b. Income verifications for all adult household members.
- c. Uniform Residential Loan Application.
- d. Evidence of qualified alien status, if applicable.
- e. FEMA Form 81-93 “Standard Flood Hazard Determination.” Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required.
- f. Evidence of previous 12 month mortgage payment history. The lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.

11. All additional requirements of RD Instruction 1980-D and applicable Administrative Notices continue to apply.

**Rural Development Responsibilities:**

- 1. Request funding for the refinance if necessary by sending an email request to: [sfhgld@wdc.usda.gov](mailto:sfhgld@wdc.usda.gov). Please include the State and the amount of funding needed.
- 2. Retrieve original appraisal amounts in GLS when processing Rural Refinance Pilot transactions.
- 3. Review the previous 12-month mortgage payment history. If a credit report is submitted, only review the 12-month mortgage payment history. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. Agency staff should use the “Borrower ID” with GLS Report “*GLSST01: Status of a GRH Loan Account*” to ensure the loan is currently active and not in default.
- 4. Enter 0 in the “FICO Score” data field when processing a Rural Refinance Pilot application.
- 5. Enter the repayment income calculation in GLS, but do not include any “Additional Liabilities” amounts. In the event the new mortgage payment results in ratios above 29 and/or 41 percent, check the box that indicates a debt ratio waiver has been issued by the Agency.
- 6. In the “Agency Notes” section of the GLS Application screen enter “Rural Refinance Pilot Loan.” This will identify the loan as part of this pilot in the event of a loan review.

7. Once the Agency's loan closing transaction has processed and a new *Loan Note Guarantee* has been issued, the Finance Office should be notified to terminate the original guarantee. Notifications may be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 Box 200011, St. Louis, MO 63120-0011, or via fax at (314) 457-4279.

The intention of the Rural Refinance Pilot is to allow existing Section 502 Direct or Guaranteed borrowers the opportunity to reduce their current mortgage payments in an effort to become successful homeowners. This pilot will apply for two years from the effective date of this notice unless withdrawn at an earlier date and cannot be modified without National Office approval. Any revisions to the pilot guidelines presented here will be conveyed in writing to the States.

If you have any questions, please contact Kristina Zehr of the Guaranteed Loan Division at (309) 452-0830, ext. 111; or, by email at [kristina.zehr@wdc.usda.gov](mailto:kristina.zehr@wdc.usda.gov). The Single Family Housing Guaranteed Loan Division may also be contacted at (202) 720-1452.